Before the
Rural Utilities Service
United States Department of Agriculture
Washington, D.C. 20250

Statement of the Organization for the Promotion and Advancement of Small Telecommunications Companies

OPASTCO

Public Meeting on Rural Broadband Access
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INTRODUCTION

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) submits this statement for the record in conjunction with the June 27, 2002 Public Meeting on Rural Broadband Access conducted by the Rural Utilities Service (RUS). OPASTCO is a national trade association representing over 500 small telecommunications carriers serving rural areas of the United States. Its members, which include both commercial companies and cooperatives, together serve over 2.5 million customers. All OPASTCO member carriers are rural telephone companies as defined in the Telecommunications Act of 1996 (1996 Act).[1] The majority of OPASTCO member carriers are either presently offering, or are preparing to offer, broadband or high-speed services to their customers. Approximately half of OPASTCO's member carriers are RUS or Rural Telephone Bank borrowers.

DEMAND

The future of the public network is broadband. One study predicts that by 2015, 82 percent of North American households will utilize broadband, while only six percent will use analog modems or narrowband wireless access. Only three percent of households will have service slower than six megabits per second.[2]

Price limits demand in both urban and rural areas, as does the perceived lack of compelling content that warrants a broadband connection. Demand levels vary among rural markets, although it appears that until costs decline and content becomes more compelling for consumers, current dial-up speeds will remain sufficient for many people.

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[1] 47 U.S.C. §153(37).

[2] Lawrence K. Vanston, Ph.D., *The Local Exchange Network in 2015*, Technology Futures, Inc., pp. 1-2 (2001).

Based on informal contact with a wide variety of OPASTCO members, indications are that fewer than 10 percent of customers currently subscribe to advanced services.

Local governments can play a role in stimulating and aggregating demand. Courthouses, libraries, and other municipal entities can present their needs jointly to local providers, which can make deployment more economical. However, local governments that become providers themselves only dampen the prospects for widespread deployment, as discussed below.

Demand does exist from rural educational institutions. OPASTCO members have a long history of providing discounted rates for advanced services to local schools, pre-dating the current "e-rate" program.

DEPLOYMENT

According to the National Exchange Carrier Association (NECA), 65 percent of lines served by carriers that participate in NECA's pooling system are capable of providing advanced services via digital subscriber line (DSL) technology.[3] DSL-based service is available to well over 50 percent of the customers served by OPASTCO's members. In addition, broadband is usually available to most businesses and government centers in these service areas.

An abundance of dark fiber can be found within urban areas, and in the high capacity long-haul routes between urban areas. However, there is no abundance of dark fiber in areas served by rural incumbent local exchange carriers (ILECs). In fact, many rural ILECs are pushing fiber ever deeper into their exchanges. Several groups of small

[3] National Exchange Carrier Association, *NECA Rural Broadband Cost Study*, p. 2 (June 21, 2000), at http://www.neca.org/broadban.pdf.

ILECs have formed consortiums to establish the long-haul fiber routes necessary to serve their consumers.

Numerous vendors offer products which allow carriers to provide video, high-speed Internet access and voice services to the home over DSL. The primary hindrance to provisioning the physical plant so that it is capable of providing such services is cost. Where the cost factor can be overcome, indications are that take rates increase to levels above 30 percent when voice, video and Internet access services are bundled together. For example, one popular option in some bundled service packages allows caller ID information to be displayed on television screens. Another feature popular with consumers is the ability to watch different video offerings on multiple televisions, while being able to simultaneously access the Internet and use the telephone. Such dynamic offerings require a minimum amount of bandwidth that non-wireline platforms will find very difficult to achieve.

While innovative bundled offerings are promising, it is often very difficult for rural providers to obtain video content that consumers demand. Large content producers at times are reluctant to provide programming at affordable rates to small, rural carriers. Without access to programming content under equitable terms and conditions, these small carriers cannot fulfill consumer demand. Continuing difficulties in obtaining suitable content that would lead to increased "take rates" further slows deployment.

THE RURAL LANDSCAPE

Small LECs primarily serve rural areas, and are integral parts of these communities. They have very deep roots in their markets, and play an active and vital role in promoting economic development. Unlike large regional or national carriers, rural

LECs are based in or near the communities they serve and are able to respond quickly to resolve any issues their customers might have. To a company that serves only a few thousand customers, each customer is far more important than they might be to a carrier with millions of customers.

Rural ILECs also tend to have only a handful of multi-line business customers in their service areas. Businesses typically generate more volume, and have greater capacity needs than residential customers, so they are more likely to purchase advanced services. Thus, these businesses serve as demand "anchors" for broadband capability. When a rural ILEC loses a business customer, the decline in revenue not only puts increased rate pressure on the remaining residents, but also further hinders the ability to deploy advanced services.

Technology platforms other than landline can be used to provide services, but face inherent limits. Wireless carriers provide voice grade service to select rural areas. Rural LECs also provide mobile wireless service in order to meet consumer demands. Satellite service is, at present, mostly restricted to throughput that is high speed in only one direction, and suffers from latency issues. While such platforms can provide certain levels of service, they do not have the proven scalability and capacity demonstrated by landline delivery methods, especially fiber. It is not clear that other delivery platforms can achieve the bandwidth capacity of 6 – 24 Mbps per household that is projected to be needed by 2015.[4]

Many factors inhibit investment in rural broadband infrastructure. Even if demand were to rise, the cost of deployment in the most sparsely populated markets remains a challenge. The NECA study sited above indicates that upgrading the

remaining lines served by rural carriers would cost $10.9 billion.[5] A follow-up study by NECA shows that the costs of obtaining sufficient backbone capacity to accommodate broadband traffic in sparsely populated rural markets are significantly higher than in urban markets.[6] The high costs of backbone connectivity in remote areas will become an important issue as demand for advanced services grow, because increased demand results in the need for additional backbone capacity. Further, per-customer costs associated with backbone access do not always significantly decrease as penetration rises.

Numerous rural carriers have made broadband investments without clear business plans because they felt there was a need that only they could fulfill. However, ubiquitous deployment cannot be achieved if providers cannot recover their costs. An uncertain economic and regulatory environment also inhibits investment. Local government entry into telecommunications inhibits investment. The fact that advanced services are not eligible for universal service support, as discussed below, also inhibits investment.

UNIVERSAL SERVICE

Currently, advanced services are not eligible to receive universal service funding. A proceeding underway by the Federal-State Joint Board on Universal Service is considering modifications to the current list of services that are eligible for universal service support,[7] but it is currently unknown what the outcome will be. What is known are the four definitional criteria that the Joint Board and FCC must consider under section 251(c)(1) of the 1996 Act when considering the inclusion of a service in the universal

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[4] Technology Futures, Inc., p. 2.
[5] NECA Rural Broadband Cost Study, p. 2.
[6] National Exchange Carrier Association, *NECA Middle Mile Cost Study*, Executive Summary (Oct. 21, 2001) at http://www.neca.org/midmile.htm.
[7] *Federal-State Joint Board on Universal Service Seeks Comment on Review of the Definition of Universal Service*, CC Docket No. 96-45, Public Notice, 16 FCC Rcd 16155 (2001).

service definition. Notably, one of those criteria is whether the service in question has, "through the operation of market choices by customers, been subscribed to by a substantial majority of residential customers."[8] While it is projected that the majority of residential customers will one day subscribe to broadband services, presently this is not the case. Absent universal service support, the small LECs serving as carriers of last resort in their rural communities will have increased reliance on RUS financing in order to make broadband deployment feasible.

COMPETITION

Competition and the "carrier of last resort" concept are like oil and water. In the past, universal service support aided one carrier in markets that were insufficiently robust to allow for affordable service. However, in the post-1996 world of "portable support," the new challenge is either to increase the universal service fund to support multiple carriers, or for states to give more serious consideration to their universal service responsibilities, rather than emphasizing competition almost to the exclusion of all else. This is a critical issue not easily solved.

In addition, Congress provided states with the ability to protect consumers from the negative effects of competition in rural markets that are unable to sustain more than one provider. Section 251(f) of the 1996 Act explicitly requires states to consider the economic burden, technical feasibility, and effects on universal service when considering

[8] 47 USC § 254(c)(1). Additionally, the FCC is currently considering changing the classification of wireline broadband Internet access from a "telecommunication service" to an "information service." *See, Appropriate Framework for Broadband Access to the Internet over Wireline Facilities,* CC Docket No. 02-33, *Universal Service Obligations of Broadband Providers; Computer III Further Remand Proceedings: Bell Operating Company Provision of Enhanced Services; 1998 Biennial Regulatory Review – Review of Computer III and ONA Safeguards and Requirements,* CC Docket Nos. 95-20, 98-10, Notice of Proposed Rulemaking, 17 FCC Rcd 3019 (2002). Were such a change in classification to occur, it could be interpreted to preclude DSL-based services from becoming eligible for universal service support, particularly in the short term.

whether to lift a rural carrier's exemption from the unbundling, collocation and other market opening requirements of the law.[9] When new entrants are allowed into markets that barely sustain even one provider, the result is to increase rate pressure on residential consumers that competitors often have no interest in serving.

The deployment of wireline broadband services is a challenge due to many of the same factors that make traditional voice service difficult and expensive to deploy. Lenders must consider the ability of a market to accommodate multiple providers, as well as many other factors, when deciding whether to finance a particular provider's broadband deployment. While more sources of capital are available today, the RUS has a vital role in providing low-cost financing, especially in the high-cost areas served by small LECs.

One of the greatest threats to maximum broadband deployment in rural areas occurs when state or local governments decide to provide service on a commercial basis. Government entities have certain unfair advantages, such as control of rights-of-way and favorable tax circumstances, that hinder the ability of non-government providers to serve a rural market. If a government serves a town, it often effectively precludes a private carrier or cooperative from doing so. In such a case, a private carrier or cooperative that may have desired to serve both a town and its surrounding outlying areas would not be able to effectively serve the more populated town market, making it economically infeasible to provide service in the less populated surrounding regions.

Therefore, it is imperative that the RUS implement section 601(d)(2) of the Farm Security and Rural Investment Act of 2002 with a great deal of care. This provision

[9] 47 U.S.C. §251(f)(1)(B).

declares that a state or local government may only be eligible for an RUS loan or loan guarantee if no other eligible entity is already offering, or has committed to offer, broadband services to the eligible rural community. In order to maximize broadband deployment in rural areas, the RUS should minimize the requirements LECs must comply with to demonstrate a "commitment to offer" broadband services. Either prior statements to customers and potential customers, advertisements, or a statement self-certifying that such an intention exists, should all suffice to meet this requirement. Placing more burdensome requirements on small rural carriers will only serve to further impede the goal of ubiquitous broadband deployment.

Finally, an unfortunate provision of the statute, section 601(b)(2), prohibits small carries that serve communities located within standard metropolitan statistical areas (MSAs) from receiving RUS assistance in this program. However, a number of truly rural communities are located within MSAs simply because a small portion of their county may be urban in nature. OPASTCO recommends that the RUS and the rest of the Administration join in our efforts to work with Congress to correct this flaw.

Respectfully submitted,

THE ORGANIZATION FOR
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OF SMALL TELECOMMUNICATIONS COMPANIES

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